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As directed by Decision Memorandum No. 9 of the National Security Council - Interdepartmental Group for InterAmerican Affairs of June 3, 1971, the Country Team herewith transmits a preliminary analysis and strategy paper for Uruguay for the next five years.

Upon receipt of the Department's concurrence and instructions it is proposed that the enclosed document be further refined following the November 28, 1971 elections and be reflected in this Mission's FY 74 CASP submission.

This paper was completed for submission to the Department

Enclosure: all 7 m

Preliminary Analysis and Strategy Paper - Uruguay

Group 2

Exempted from automatic downgrading

By Frank V. Ortiz  
 Frank V. Ortiz, Chargé d'Affaires, a.i.

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Drafted by: Charge: FV Ortiz:mer  
 Clearances: MILGRP: Col. Caliendo; DEFATT: Col. Smith; CONS: Mr. Prieto; ADMIN: Mr. Warnock

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after Ambassador Adair's departure for the United States on consultation but had his approval in draft and only minor alterations have been made since then.

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OK:YZ

Contributors:

AID: Mr. Rhoads *1.2*  
DEFATT: Col. Keenan *JK*  
ECON: Mr. Steins *JK*  
EA: Mr. Morgan *JK*  
MILGRP: Col. Andreacchio *JK*  
POL: Mr. Tull & Mr. Block *JK*  
USIS: Mr. Gould *JK*

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PRELIMINARY ANALYSIS AND STRATEGY PAPER - URUGUAY

I. INTRODUCTION

A. U.S. Interests

Decision Memorandum No. 9 of the NSC-1G/ARA on the FY 1973 Uruguay CASP instructed the Country Team to prepare a strategy, particularly for bilateral assistance, for the 1972-1976 period designed to increase support for the democratic political parties in Uruguay and lessen the threat of a political takeover by the Frente. These preliminary Country Team recommendations are to be refined after the election of November 28, 1971, and included in the FY 1974 CASP.

B. Pertinent Statements of U.S. Policy

This preliminary strategy paper is intended to be consonant with the approved FY 1973 Uruguay CASP which provides general background on U.S. interests and objectives in Uruguay and a general assessment of current issues in Uruguay. The FY 1972 and FY 1973 AID Country Field Submissions, the USIS FY 1972-3 Country Program Memorandum and the Military Assistance Program Plan should also be consulted. For conciseness, this submission does not duplicate these previous submissions. It restricts itself to an assessment of the Uruguayan situation as it is immediately related to the proposed strategy and recommends specific courses of action. Before proceeding to the assessment however, a precise statement of the threat presented by the Frente Amplio to Uruguay is required. This is followed by a brief summary of previous U.S. assistance strategies in Uruguay.

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C. Threat of the Frente Amplio and Situation of the Traditional Parties

The Frente Amplio threatens Uruguay's traditional institutions because it is able to exploit the negative factors so prevalent in current Uruguayan society. Apathy and disillusionment arising from a decade of unresolved economic and social problems, fear of violence and civil strife which the Government has been thus far unable to remove, the mistakes of Blanco and Colorado regimes in attempting to find too-easy solutions to the nation's ills, all provide the Frente Amplio with ammunition with which to charge that the traditional parties have demonstrated their inability to improve the quality of Uruguayan life. To these problems, the Frente is able to promise fast action and radical "solutions". The Frente Amplio as a group cannot be charged with past failures. Communist control of such basic institutions as education and labor gives the Frente Amplio important resources with which to oppose the traditional parties and contribute to these negative factors.

Notwithstanding the recruiting inroads which the Frente has made, the overwhelming majority of Uruguayans continue to consider themselves members of the traditional Blanco and Colorado parties. Many of those currently supporting the Frente believe they are the true upholders of traditional political beliefs and will likely continue to consider themselves either Blancos or Colorados unless there is a general political collapse. The traditional parties are not producing effective national political leaders. Thus, individual faction leaders are thrown back on their own resources and are fearful and suspicious of cooperative political efforts which might affect their positions. "Reform" and "modernization" could mean loss of public employment or reductions in social benefits in a society which provides no alternative opportunities. Conscious of their past failures, politicians are hesitant and timid of their own abilities to lead.

Tough, often harsh, economic and public order decisions by the Pacheco Administration have split politicians of the traditional parties into opposing camps and have left little ground for compromise and accommodation. What basically is lacking in the two traditional parties today is confidence in their own abilities and recognition that the Blanco-Colorado majority in this country does not demand total instant success on all fronts, but only the promise of reasonable success in the coming years.

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D. U.S. Assistance to Uruguay

Our assistance has never been on a large scale. The Military Assistance Program has been a modest one of training and a very limited but effective modernization program. It has totaled about \$15 million in the past 7 years. In the 50's, economic assistance was limited to a few technical assistance programs - a DLF loan for utilities, and a large PL 480 Title IV loan followed a crop failure. An AID Mission was not established until mid-1962 and total obligations of \$41 million have been made to date. Through 1965, AID maintained a minimal "presence" program with a grant program of about \$1 million per year. The political and economic situation of the GOU was considered so unfavorable that no development loans were proposed for the public sector, and no private sector loans were possible. From 1966 to date, a technical assistance program has been maintained at roughly the level of \$1.4 million per year, while a more ambitious loan program designed to achieve the usual economic development objectives was carried out. These loans have achieved some of their more specific targets. They have not succeeded in bringing about a general GOU orientation towards solving the longer run development problems in a rational manner, rather than handling economic policy as an offshoot of short-run political considerations.

Multilateral assistance through loans to Uruguay has been fairly sizeable, totaling about \$160 million in the last 10 years. With the exception of some IBRD loans to agricultural improvement and utilities, they have had little or no effect on creating better policies or building better institutions. Without bilateral and multilateral assistance efforts, conditions in Uruguay would be worse today, but they have done little to change the disregard for efficiency and good administration, the neglect of careful planning of projects and policies, and the dominance of short-run political considerations characteristic of the GOU for over a decade.

II. ANALYSIS OF THE SITUATION AFTER THE ELECTIONS

A. The New Government

Despite the efforts of the Frente, it now appears one of the two traditional parties will win the 1971 elections. The new government can most likely be characterized either as "conservative traditional" or "moderately progressive". A Pacheco-backed candidate continuing the President's current policies would typify the first, while a government

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headed by Colorado faction leader Jorge BATLLE, or opposition Blanco Senator Wilson FERREIRA Aldunate would be examples of the second. U.S. strategy for the next five years will be affected by the orientation of the new Administration. A "conservative traditional" Administration would be one in the historic Uruguayan mold, slow to change, anxious to preserve traditional political ways of governing, not anxious to engage in difficult basic infra-structure reforms, and seeking political accommodation and compromise as its principal governing tool. A "moderately progressive" Administration will probably draw around it younger, more capable and more forward looking ministers. Although "progressive" leaders (like all Uruguayans) would be suspicious of outside assistance tied to any "strings", they now show a greater realization that basic governmental reforms are necessary. Hence they would be more in tune with current U.S. policies in the Hemisphere, particularly on assistance matters.

We expect that emphasis will be placed on the need for "national unity", and the necessity of accommodation with other political groups. Whether such a feeling can go beyond simple political horse-trading to a more fruitful level of national political cooperation is not yet predictable.

#### B. Economic and Fiscal Policies

We do not expect that the November-March period will be one in which large-scale reforms or changes will be launched. Once the election is over the peso could be devalued, a unitary exchange rate system restored and a program to work off the arrears developed. Steps to reduce the large budget deficit and improve the credit system in an effort to reduce money creation, which will be running at a yearly rate of over 40%, might also be taken. However, it is more likely these problems will be left to the incoming administration. Some preliminary planning at the technical level may progress, assisted perhaps by the IMF Mission which will come for Article XIV consultations, but little more can be expected. A lame duck administration, a new administration unwilling to commit itself before it takes office, the traditional summer slowdown, and the lack of general agreement on the measures needed to restore stability will probably combine to prevent any significant actions to reverse unfavorable tendencies. If the economic crisis is severe during the period, even further measures of direct controls and restrictions may be taken, designed to buy time until the new Government takes over. In short, the new Government will face a very difficult balance of payments and fiscal situation on taking office.

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C. Montevideo and the Frente

At present, the Frente is exerting a major effort to capture the administration of the Uruguayan capital. Such a victory would have important consequences for U.S. strategy. The Intendente or Mayor of Montevideo is rightly considered the second most important executive in Uruguay. He controls a very large city administration which receives substantial tax revenues and his licensing powers give him a great influence over local business enterprises. Frente control in Montevideo would not only give it a substantial psychological boost, but would also place at its disposal important political levers. However, although the administrative powers of the Departmental Council are slight, it has substantial means to impede actions of the Mayor, up to and including his censure and removal. We do not think it likely that a Frente victory here would be more than a narrow plurality, thus leaving control of the Departmental Council in Blanco-Colorado hands. Also, the national administration retains control of Montevideo public order forces. Nevertheless, a Frente victory in the capital city would exacerbate the already serious interior-capital split and, with nearly one-half the population under its control, would reduce the possibility of an effective anti-Frente strategy on our part.

D. Expected Economic and Financial Situation on March 1, 1972

Main areas of economic concern to the new Administration are balance of payments, fiscal and monetary matters, investment and production, income and prices, and employment.

1. Balance of Payments - The timing and amount of a devaluation is a key question. The new government may well be put in a position of devaluing while simultaneously attempting to introduce a stabilization program at a time when the economy will be suffering from a shortage of import commodities necessary for maintaining industrial production and employment.

2. Fiscal Situation and Prospects - Government expenditures for salaries and social benefits will increase. In addition, transfers to other entities such as the municipalities, the school system and autonomous agencies will increase. An estimated deficit of 25 to 27 billion pesos for 1971 can be expected and could be greater should the outgoing government open the floodgates. The new government will not rescind previous decisions made to curry political favor.

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There are few new resources available on the revenue side, although small adjustments are possible which would not add more than one billion pesos in new revenue.

The fiscal outlook is bleak for the new regime. The control of expenditures necessarily is the first line of attack for the new government, which will only begin formulating its five-year budget and its first-year working budget some time after March 1, with congressional action to provide for new sources of revenue coming as late as October/November 1972. In the interim, export taxes may be increased if there is a devaluation in order to reduce windfall gains to traditional commodity exporters.

3. Money and Credit Situation and Prospects - Monetary authorities will attempt to adjust to the prevailing political imperatives. A great expansion of liquidity will probably cause increased price pressures by December 1971 which will become serious in 1972. The projected government deficit of around 26 billion pesos for 1971 will be financed primarily by issuing new money, and if the government continues its expenditure program through the first quarter of 1972, this would imply an additional 5 to 7 billion peso financing operation. Thus, the Central Bank will be forced to continue implementing an expansionist program. Moreover, debt consolidation and meatpacking programs could result in an expansion of 20 to 25 billion pesos in new funds, causing distortions throughout the period in the size and distribution of private sector credit.

Thus, the monetary base could expand at a rate sufficient to cause an inflation of at least 50% by the time the new government takes office. COPRIN (the GOU's wage-price control board) may be undermined by the combined adverse effects of excess monetary demands and reduction of imports needed for industrial production.

4. Production and Investment - Both production and investment will continue generally low throughout the period up to March 1972. We may see some seasonal up-turn in agricultural production, but a sustained and significant increase in agricultural production awaits substantial investment in materials and technology. Industrial production is almost certain to remain stagnant, lack of new investment being the determining factor. Imports of capital goods and raw materials required to maintain

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and increase industrial production will continue to be delayed. If the peso is significantly devalued, import costs will rise before the devaluation's benefits to national production can take effect.

Investment is similarly stagnant. The GOU's present attempts to maintain public investment near the levels planned (at least in monetary terms) for political reasons may be expected to slacken as these political reasons disappear after the elections. Private investment is adversely affected by the security situation. The election may dissipate some of the uncertainty, but the investment climate will not appreciably be better before the new government takes office.

5. Employment, Prices and Income - These conditions with monetary expansion and balance of payments controls would face the new government with a dilemma, consisting of the need to control inflation while reduced industrial activity is causing greater unemployment. The unemployment for 1971 may be near 10%, possibly reaching 12% if the same conditions are maintained through March 1972. Despite the strength of the labor unions in Montevideo, real wages may begin to slide off by the turn of the year, as the rate of inflation picks up: this trend could result in further labor unrest early next year.

This extremely difficult economic situation will require much planning and decision-taking to stabilize the situation. It is hard to conceive of a new government positively planning long-term solutions to most problems during 1972. In view of the general lack of sophistication in government management and general lack of coordinated governmental effort, the new government will have its hands full, probably throughout 1972, finding short-term solutions to economic crises.

E. Expected Internal Security Situation in 1972

Based on the premise that the Frente Amplio will not win the 1971 elections, and that the lame-duck Pacheco Administration and the new Government will not, at least initially, be able to surmount Uruguay's problems, the following state of public order is anticipated:

1. There will be a continuance of terrorism, possibly on a larger scale by frustrated and inflamed youth, militant labor and dis-appointed Frente Amplio elements of the radical left.

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2. There will likely be an escalation of counter-terrorism by rightist elements and a recourse to more drastic repressive measures.

3. General strikes and agitation by leftist-led unions and students will continue, and may at times become violent. These will adversely affect economic conditions.

4. Should the security situation deteriorate to a degree unacceptable to the military, the stage could be set for a military-backed coup.

### III. RECOMMENDED U.S. STRATEGY IN FOUR KEY AREAS

#### A. Psychological

For fifteen years Uruguay has been buffeted by political, social and economic changes which the average citizen thought could never occur and which threaten to destroy Uruguay's long-cherished democratic institutions and its easy and prosperous life. Uruguayan youth suffer particularly. Graduating professionals cannot find work commensurate with their training and talents. Emigration is increasing in a search for a more secure and rewarding life. Those who stay find little incentive and challenge. Some become supporters of terrorist movements as they seek radical "solutions" to the country's problems.

As a result of this deteriorating situation, a strongly negative psychological attitude prevails. Many have lost faith in the traditional political process. A key element in devising an effective U.S. strategy is a reversal of this negativism. Uruguayans must develop an attitude that looks ahead to what can be rather than back to how good it used to be. A conviction that Uruguay has all the fundamentals necessary to overcome its present problems is necessary.

The Frente emphasizes the negative psychological factors and aggravates them by orchestrating well-organized and steady anti-Government, anti-democratic propaganda campaigns. The Frente utilizes two daily newspapers, El Popular (circulation 14,000) and La Idea (circulation 7,000). There are several weeklies and sporadic publications hewing to the Frente line. The most effective weekly is Marcha (circulation 20,000) which for

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almost a generation has poisoned the well springs of Uruguayan intellectual life. The Frente controls three radio stations. It has the capability for massive poster, television and sound truck campaigns. There is little doubt that this pervasive Frente propaganda campaign counts on extensive financial backing, some from outside Uruguay. If a climate of constructive optimism is to prevail, the effectiveness of Frente propaganda must be blunted.

Recommended Courses of Action

1. Government Information Program - Encourage the new government to initiate a professional and coordinated information program designed to develop pride in the country and hope for its future. The program should emphasize Uruguay's great potential, natural and social advantages and that it is free from many of the problems which plague underdeveloped countries.
2. Information Seminars - Convince the new government of the need for keeping the public informed and, equally important, of being informed on public opinion. We could cooperate with the new government in organizing a series of seminars that would open up two-way communication with appropriate groups of young people and between those young people and disparate groups of their society.
3. Leader Grants - Substantially increase the exchange and leader grant programs thus exposing leaders and opinion molders to the latest communications techniques for influencing public opinion.
4. Civic Pride - Convince the Intendencia of Montevideo that a clean, efficient and modernized Montevideo will induce a civic pride that is essential in developing the psychology of optimism which must accompany reforms in other Uruguayan problem areas.
5. Study of Western Civilization - Institute in the Binational Center a one-year study program of Western-democratic traditions with an American Specialist in residence as Director and mentor of the program utilizing U.S. films, exhibits, pamphlets, books and visiting Fulbright scholars in Argentina and Brazil. Such a program could highlight many of the crises which Western democracies have weathered to demonstrate that the system is still viable for Uruguay. A history of the social and economic reforms in the U.S. and Britain could demonstrate that similar reforms can be accomplished here without recourse to violence or destruction of the present system.

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6. Countering Frente Propaganda - Collaborate overtly and covertly with those media elements which compete with those of the Frente. A team of professional journalists well versed in psychology could study Marcha and its attraction for the Uruguayan intellectual and could improve a media product that could effectively combat this noxious weekly.

B. Economic Assistance

Over the next five years, U.S. bilateral and multilateral economic assistance to Uruguay can be effective in building support for traditional political parties only if the new administration takes major steps to increase and better utilize Uruguay's own resources. Productive output must increase if unemployment is to decrease and the pressure for excessive public sector employment is to lessen. This means a stable business environment, with lessening of controls and direct intervention in the economy, and well coordinated fiscal-monetary-balance of payments policies. Exports must increase if the balance of payments problems are to be solved. The education system must be reformed, de-politicized, and adequately funded. The social security system must also be reformed and its increasing deficits reduced.

Today the GOU cannot meet its legal obligations for financing education and social security without running huge deficits that prevent monetary and price stability - the strategy being followed in this pre-election period. A fiscal reform will be needed, based not so much on major new taxes, as by a broadening of the base and a simplification of the existing taxes.

The current vicious circles of over-control of private sector activity, excessively complicated public sector policies, excessive commitments for spending public funds beyond tax revenues despite a system with very high nominal tax rates, and a short-run crisis management approach to fiscal-monetary-balance of payments are a direct outcome of the operations of the traditional political parties in the Uruguayan system. If the next Administration is not motivated to make the major needed changes in economic policy, provision of large scale external resources will neither solve problems nor persuade the GOU into following different policies. The U.S. should not attempt to dictate GOU economic policy, but neither should it provide extraordinary resources unless the GOU is genuinely dedicated to major changes in economic policy.

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However, if the GOU is genuinely motivated to make major improvements in economic policy and management, provisions of important external resources will ease the transition period, perhaps allow the GOU to undertake the changes, and will increase the probability of success of the new policies. Although it is too early to discuss specific amounts, up to \$25 to \$50 million might be required to support the crucial period of major GOU initiative to completely renovate economic-political management.

Recommended Courses of Action

1. A Stabilization Program-Short Run Supporting Assistance -

The incoming GOU will face a serious economic situation - exchange rate crisis, lack of foreign exchange reserves, large budget deficit, a high rate of inflation, shortages of imported goods, unemployment, and a fall in industrial production and a lack of private investment. If its response is an uncoordinated series of temporizing measures that hold no promise for establishing a sound stabilization program, the U.S. should resist all political pressures for extraordinary assistance. However, a reasonable attempt for a sound stabilization program while planning proceeds for a further development program, could merit significant U.S. assistance in cooperation with the IMF and other international agencies.

The key elements in such a stabilization program would be a devaluation and reunification of the present overvalued exchange rates, and establishment of a crawling peg mechanism for further devaluations; limitation of the fiscal deficit to a level where Central Bank financing to the GOU plus money creation for lending to the private sector would be consistent with a rate of inflation under, say, 20% per year; a reform and freeing of the credit system, with interest rates high enough to offset the expected inflation and still be competitive for lenders with interest rates in the exterior; simplification of trade controls, with provision for an adequate level of imports, and adequate stimulus for exports. The development planning to be undertaken should include fiscal reform and a public sector investment program; provision of adequate funding; plans to reform the social security system and put its funding on a sound basis.

It is unlikely that the GOU could undertake and carry out with complete success all of these elements in the expected difficult situation; both the will and the capacity may not exist. To a certain extent, the GOU should be given the benefit of the doubt if it does

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undertake a coordinated stabilization program with it made clear that continued U.S. assistance will depend on an evaluation of the results of the effort.

2. Stabilization Program-Longer Run Assistance - Within a year or 18 months from next March, the basic economic position of the new GOU should be clear. If the stabilization program is successful, and adequate results have been obtained from the development-planning efforts, further supporting assistance should be considered for continuance of the stabilization program, and implementation of educational, social security and fiscal reforms, and for a lessening of direct controls over the private sector.

If the stabilization program has been unsuccessful because of a lack of GOU commitment or competence, or if the GOU is unwilling to continue beyond a stabilization program to the more fundamental required reforms, a strategy of disengagement should be followed. A government that will not allow the private sector to operate effectively, nor manage its own public sector efficiently, does not necessarily merit important economic U.S. support.

3. Specific Capital and Technical Assistance Projects - If the approach to economic problems of the new administration is changed from a short-run approach of political expediency, a number of specific projects for financing by the multilateral agencies or by AID can have a favorable short-run political impact within the five year period. These projects, some of which are listed below, can support and complement a general stabilization and a government modernization and simplification approach, as well as making their own specific contribution to increased resource production.

Without a general change for the better in the overall economic climate, some projects can still be successful, but over a longer period of time, and with less immediate impact. They may be delayed by excessive government controls, by shortages of local funds, by abrupt changes in the prices of outputs and inputs, etc.

a. To meet the need for more electric power, the Palmar and/or Salto Grande hydroelectric projects could be constructed with IBRD or IDB funding with U.S. support.

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b. The IBRD Plan Agropecuaria, which increases the productive capacity of Uruguay for meat production, could be continued and expanded with IBRD funding.

c. A major effort could be made to develop a Uruguayan fishing industry for export markets. The potential for a major increase in exports is large, and with UN technical assistance and capital support from the IDB or the IBRD, a new private sector industry can be built up.

d. There is also room for new multilateral agency loans for development of tourist facilities. Such investments must be based on careful feasibility studies and accompanied by technical assistance to improve tourism industry promotion and management.

e. Agricultural programs based on supervised credit to producers and marketers can increase crop output and lead to greater exports.

f. Education is a highly political and nationalistic subject in Uruguay, but some direct support might be provided to attempt to recover control from Marxists by contributing to major improvements in the teaching of management and economics.

4. Assistance to Montevideo City - If the Frente candidate does not win Intendente of Montevideo, the possibilities of direct assistance to the municipal administration to improve its services and facilities should be explored.

5. Greater Argentine and Brazilian Economic Assistance - An opening of their markets to Uruguayan goods on a concessionary basis would significantly help Uruguay. If the U.S. should provide supporting assistance, it could explore with Argentina and Brazil allowing procurement with those funds in their countries, if they in turn will make unilateral trade concessions to Uruguay. If this is not feasible, other methods of increasing Argentine and Brazilian participation in strengthening Uruguay economically should be explored and developed if possible.

### C. Political

Because our ability to exert direct and decisive influence on political events in Uruguay will remain slight, the main thrust of our political actions in the 1972-1976 time frame should principally be devoted

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to encouraging and urging the new Administration to undertake those more tangible economic, financial, and security programs outlined elsewhere in this section. All political actions which can be taken to foster the belief among Uruguayan politicians that they are capable of undertaking necessary basic reforms will contribute to our overall strategy.

### Recommended Courses of Action

1. Commission on National Goals and Plans - In order to counter the Frente Amplio's charge that the traditional political parties are unable to deal with the nation's problems, as well as to take advantage of the often expressed feeling by senior political leaders that national unity and a national effort to attack the nation's ills are now obligatory, we should impress at an early stage on the new Uruguayan president-elect that he establish a bi-partisan Commission on National Goals. With adequate technical assistance and representation from the major democratic political groups, the Commission's recommendations could serve as a common action document for members of both the democratic parties.
2. Building Uruguay's Image - Together with the despair which some Uruguayans express about the ability of their traditional institutions to solve their internal problems, the "little Uruguay" concept is also heard which holds that this small country has no relevant role in international affairs. There are several measures we could take to promote the idea that Uruguay's democratic traditions and institutions are looked upon as valuable and worthy of maintaining. One of these would be an invitation to the new Uruguayan President to make an official visit to Washington early in his term. Through our informational activities, we could also seek to play up the role of Uruguayan politicians in international forums and generally seek to give such political leaders favorable public exposure and increased stature in the eyes of the Uruguayan population.
3. Increased Leader Grant Program for Young Politicians - As part of our effort to encourage more participation by Uruguayan youth in the country's political life, a greatly increased program of Leader Grants visits to the United States for young political leaders would be useful. The present size of our Leader Grant Program does not permit us to offer such grants on the scale needed and young politicians can rarely finance their own visits during the early, formative stages of their careers.
4. Political Activities in Youth and Labor Fields - Generally, the two major democratic parties do not devote any appreciable effort to

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establishing party organizations in the youth and labor fields. Thus the Communist Party and more radical leftist organizations have been left free to organize both youth and labor groups without competition from democratic political groups. We should encourage senior political leaders to work more actively in the youth and labor fields and to establish democratic political organizations there.

5. Support for the GOU's Efforts to Obtain Outside Assistance -

The new Uruguayan Administration may well seek economic and financial assistance from third countries and international organizations. We should take a more direct and active role in offering political support for these efforts.

6. Recognition of the Political Threat of the Frente Amplio -

Because the Communist Party has been legal in Uruguay for fifty years and is an accepted part of the nation's political scene, politicians from the two traditional parties at times appear to look upon leaders of the PCU as simply politicians like themselves, "one of the gang". During the 1972-1976 period, we should lose no opportunity in private conversations with democratic politicians to point out the very direct danger which the PCU and the Frente Amplio pose to their own interests.

D. Labor

Although the Communist controlled CNT labor confederation has not heretofore delivered the "labor vote" in national elections, it does provide Frente Amplio politicians an important platform for communicating with large segments of the working population. In addition, the Communist Party's control of the CNT gives it the potential to seriously disrupt the economy and to mobilize labor against the Government's efforts to stabilize

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the economy and pursue development policies. For these reasons the preeminence of the CNT in the Uruguayan labor movement should be broken.

Recommended Courses of Action

1. Support of CUT - At present the AIFLD-supported CUT labor central offers the best promise of unifying the democratic labor movement, and the bulk of U.S. assistance should continue to be directed to strengthening CUT. Without unity among the democratic unions, the CNT will continue to be able to compel practically the entire work force of the capital to follow its politically motivated calls for work stoppages. U.S. labor programs should emphasize increasing CUT's ability to conduct organizing campaigns. Other types of AIFLD activities such as labor education and social projects should be programmed mainly insofar as they produce organizing benefits to CUT.
2. Assistance to Democratic Unions - U.S. assistance should be provided on an ad hoc basis to democratic unions and labor leaders outside of CUT where it will not seriously undermine the resolve and incentive of other democratic unions to unify within CUT.
3. Comprehensive Labor Law - Encourage the Government of Uruguay to adopt comprehensive labor laws which will establish a depoliticized environment in which democratic trade unions can represent their members in a responsible and business-like fashion. Such legislation should include the enforceable obligation of management to recognize and negotiate with unions, procedures for Government supervision of union representation elections and authorization for union dues check-off to be included in collective bargaining agreements.

E. Security

The capacity of the GOU to cope with increased internal security problems is seriously strained. Despite some progress, improvement is required. Basically, the objective is to focus and make more effective the counterintelligence efforts of the agencies responsible for security, in particular the Directorate of Information and Intelligence (DII) of the Montevideo police. This effort should be coupled with programs to continue to orient the armed forces toward more effective support of the police on internal security matters, and to provide both the police and the armed forces with the materiel, or access to materiel, necessary to implement their organizational and operational efforts.

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Public Safety and military assistance programs providing funds for the training of Uruguayan personnel in the U.S. and Panama, the provision or sale of materiel to the DII and Armed Forces, and the maintenance of in-country advisors will continue to provide the bulk of U.S. assistance. Circumstances will require periodic reviews, particularly of the amount of materiel and the number of advisors provided. One of the most effective facets of these programs is the training of Uruguayans abroad. Special emphasis should be made to keep such training at a maximum level. It is especially desirable that such neighboring countries as Argentina and Brazil collaborate effectively with the Uruguayan security forces and where possible we should encourage such cooperation.

Recommended Courses of Action

1. Increased Training Abroad - To improve the capacity of Uruguayan services, particularly the Army and the DII, to deal with terrorists every effort should be made to take advantage of opportunities to send Uruguayans to attend courses on such matters abroad.
2. Public Relations - To improve the level of cooperation given by the populace to the police against the urban terrorists, U.S. agencies should continue and increase their efforts to persuade the DII to undertake a public relations program to improve the police image and a psychological warfare program to discourage the populace from giving any aid or comfort to the terrorists.
3. Detention Procedures - To improve the capability of services to successfully detain, interrogate and imprison suspected terrorists, we should consider advisability of providing expert advice, preferably through TDY personnel and utilizing third country specialists if possible, on effective detention procedures.
4. Strengthening the DII - To improve the intelligence capacity of the DII, U.S. or, if possible, third country agencies should provide training, and where appropriate organizational and operational counsel. The internal security burden will, and should, fall most heavily on the DII, with the Armed Forces in a support and back-up role. To be most effective, and to create the basis for a continuing, and hopefully improving, program, the DII should be encouraged to adopt a five-year plan encompassing whatever re-organization is necessary, the establishment of materiel priorities, and the assignment of trained competent personnel to key positions. For such a plan to be effective, or even formulated, the Minister of the Interior and the President must agree to its necessity and order its preparation.

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5. U.S. Public Safety Program - Despite some improvements in the police forces we believe it essential that a public safety program be maintained in Uruguay for at least the first part of the next Administration. Any attainment of U.S. economic, political, social or psychological goals is improbable unless the security problem is brought under control. There is a continuing need for training in modern police methods. This part of the Public Safety program has received increased emphasis. We foresee the need for 25-30 trainees to the IPA or third countries in 1973, with the level tapering off slowly in later years. In-service, in-country training programs have been well established with OPS assistance, and only minor residual support and guidance will be required for this activity.

The police have taken major steps, supplemented by direct AID grant assistance, to modernize equipment. The Public Safety program need supply commodities only in limited quantities for training purposes and for the very high priority area of improved investigations. The police will require assistance in planning future equipment purchases, establishing specifications, etc., so that their funds are well spent.

Public Safety advisors have been successful in getting the police to implement improved police methods in key areas. It is expected that the need will continue for a few highly-qualified advisors to work with the higher echelon police in advisory work.

In view of the above needs, a Public Safety program with three assigned advisors has been requested for FY 1973 at a funding level of \$223,000. If the situation improves, this level might be phased down, but if the security threat from terrorism or riots increases dramatically, additional assistance in public safety may be required to meet the threat.

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